

Asset Management Business



Principal Companies

Intermediate Holding Company: SBI Capital Management

SBI Investment
SBI Asset Management
SBI Ven Capital
SBI Investment KOREA
SBI Savings Bank

In the Asset Management Business, the SBI Group has invested intensively in the 21st century core industries, such as IT, biotechnology, environment and energy. Also, in the rapidly growing countries focused on Asia, partnerships with prominent local companies were promoted based on the extensive success, trust and brand reputation that was successfully cultivated. This has contributed to the establishment of a global investment structure, along with the process of establishing a financial ecosystem overseas.

Financial Results for FY2014

The Asset Management Business consists of the venture capital business, which mainly invests in venture companies in Japan and abroad, and the overseas financial services business, which includes the SBI Savings Bank of South Korea.

In FY2014, losses from the change in fair value and losses from the sales of investment securities totaling ¥4.3 billion were recorded, primarily owing to the decline in prices of listed stocks held in the Group portfolios, as well as valuation losses on the U.S. shale gas-related stocks, owing to the impact of the decline in crude oil prices. However, segment performance was underpinned by the ¥16.7 billion profit before income tax expense achieved by the SBI Savings Bank of South Korea, which made progress toward the recovery of claims, due to a buoyant trend in the real estate market. As a result, segment operating revenue declined by 9.5% year-on-year to ¥65.8 billion, and profit before income tax expense decreased by 9.5% to ¥8.1 billion.

Since this Group segment includes foreign financial institutions, a structure has been established to maintain a steady revenue stream that is linked to the growth of the financial institutions, but there is always the possibility of major fluctuations in financial performance, owing to the effects of stock market trends, and other factors. This especially applies to the investment securities held by the Group, whether listed or unlisted, as they are assessed at fair value every quarter, regardless of whether there has been an actual sale or not, operating revenue is adjusted to reflect any changes in their fair value.

Full-year Financial Results of the Asset Management Business (based on IFRSs)

(Billions of yen)

	FY2013	FY2014
Operating revenue	72.7	65.8
Profit before income tax expense	9.0	8.1
Profit/loss from the change in fair value and profit/loss on sales of investment securities	9.4	(4.3) *
SBI Savings Bank	4.0	16.7
Others (SG&A, profit/loss accounted for using equity method)	(4.4)	(4.3)

* Details of profit/loss from the change in fair value and profit/loss on sales of investment securities
 • Unlisted Securities' total profit of ¥0.7 billion including loss of ¥3.4 billion on the U.S. shale gas-related securities
 • Listed Securities loss was ¥5.0 billion (unrealized gains of ¥2.9 billion versus acquisition cost)



Active Investments Continue in Japan and Abroad, with a Steady Increase in Exits

Katsuya Kawashima

SBI Investment Co., Ltd.
Representative Director and
President



A Leader in the Japanese Venture Capital Industry

SBI Investment is the core company of the SBI Group's Asset Management Business, whose investments and management of venture capital funds is guided by a corporate philosophy that calls for it to play a leading role in the development of the industry through the creation and incubation of new core industries of the 21st century, as a "New Industry Creator," and as one of Japan's leading venture capital companies.

Since its establishment in 1999, as of March 31, 2015, the SBI Group had invested in a cumulative total of 1,043 companies in Japan and abroad, with exits based on IPOs or M&A of 184 of those companies, resulting in a high exit ratio of 17.6%.

When considering venture funds for which SBI Investment itself was responsible for the investment and management since its establishment in 1999, as of March 31, 2015, on a cumulative total basis, 661 companies were invested in with an exit for 134 companies, resulting in an exit ratio of 20.3%.

Active Investments in Growth Industries, as well as Overseas

In FY2014, the SBI Group's investments totaled ¥19.6 billion in 75 companies. Of this, 66 companies were core industry companies of the 21st century, including IT, biotechnology, environment and energy, and also in the financial sector, which possesses a fundamentally close affinity to the Internet, for a total of ¥16.5 billion, or 84.0% of the total invested. Additionally, overseas investments were active, as well as investments in Japanese companies, with a total of approximately ¥13.5 billion, or 68.7% of the total investments being made into 47 companies overseas, primarily in Asia.

The Group's assets under management, including private equity, amounted to ¥191.6 billion (excluding both cash and commitment amount to be paid in), as of March 31, 2015. By region, assets under management in Japan totaled ¥88.7 billion, compared with ¥102.9 billion overseas, reflecting a higher overseas investment ratio that centers primarily in Asia. This reflects the development of a global investment structure that allows the SBI Group to discover promising overseas investment targets in collaboration with approximately 20 prominent local partners overseas, which is a feature that is not found in other Japanese venture capital companies.

The SBI Group's Assets Under Management

(As of March 31, 2015)

Private equity		¥ 294.7 billion	
(Including ¥103.1 billion of both cash and commitment amount to be paid in) (*3) (Billions of yen)			
Breakdown by industry		Breakdown by region	
IT / Internet	25.8	Japan	88.7
Biotechnology / Health / Medical	45.2	China	29.3
Services	18.6	Korea	25.2
Materials / Chemicals	2.2	Taiwan	2.0
Environmental / Energy	20.6	Southeast Asia	11.5
Retail / Food	16.1	India	2.8
Construction / Real estate	1.6	U.S.	28.8
Machine / Automobile	8.3	Others	3.3
Finance	36.3		
Others	16.7		
Total	191.6	Total	191.6

Investment trust etc.		¥ 230.6 billion*4	
(Billions of yen)			
Investment trusts			128.0
Investment advisory			98.8
Investment companies			3.8

*1 Calculated by the exchange rate as of the end of March 2015.

*2 Amounts are rounded to the nearest ¥100 million.

*3 Composed of cash in funds and unpaid capital, which is to be paid on a capital call.

*4 As for the funds that SBI Asset Management provides investment instruction to, if Morningstar Asset Management provides investment advisory services, assets are recorded in both "Investment trusts" and "Investment advisory," respectively, and such overlapping amounts totaled ¥24 billion.

Increasing the Value of Investee Companies through Powerful Incubation Capabilities

After investing in a company, SBI Investment takes a full hands-on approach in incubating that company, by proposing strategies linked to its business stage and by dispatching executives, as well as supporting the development of internal control systems. By deliberately keeping the number of investee companies in Japan per employee low, compared with other venture capital companies, SBI Investment has created a structure that allows for a deeper focus on improving the value of the companies in which it invests.

Another unparalleled feature that sets SBI Investment apart from other venture capital companies is its integrated support structure, which encompasses not only an active involvement in efforts to improve the value of investee companies, but also to support the public share offering process. When an investee company reaches the IPO stage, SBI Investment is able to utilize a highly effective support mechanism based on the resources of the entire SBI Group, including the extremely large customer bases of SBI SECURITIES and SBI MONEY PLAZA, as well as a network of overseas SBI Group offices and overseas partner companies, in the case of overseas investments.

This commitment to maximizing the value of investee companies is reflected in a larger IPO size per company, compared to other venture capital companies, and although a latecomer to

the venture capital business, SBI Investment is steadily building itself a position of superiority.

Achieved Fourteen IPOs or M&A Deals

In FY2014, the Japanese IPO market continuously expanded for the fifth consecutive year, resulting in the number of companies implementing IPOs to 86, for an increase of 33 companies year-on-year.

The SBI Group arranged IPOs or M&A deals for 14 investee companies in FY2014. There were six IPOs in Japan and four overseas, with four negotiated M&A deals. In FY2015, the total number of IPOs and M&A deals is expected to increase by six to 20.

Results of IPO and M&A Deals on Investee Companies in FY2014

Number of companies	Date	Company	IPO / M&A	Business	Head office
Japan: 9 companies Overseas: 5 companies	April 2014	Smart Navi Co., Ltd.	M&A	Provision of solutions, such as sales support, customer management and sales promotion using tablets	Japan
	June 2014	NEWTON FINANCIAL CONSULTING, Inc.	IPO (TSE JASDAQ)	Insurance agency and temporary staffing businesses	Japan
	July 2014	NIPPON VIEW HOTEL CO., LTD.	IPO (TSE 2nd Section)	Operation, guidance of operation, or franchise development of hotels and other lodging facilities, and amusement park operations	Japan
	August 2014	WH Group Limited	IPO (HKEx Main Board)	One of the world's largest pork processing companies	China
	August 2014	Pandora TV Co., Ltd	IPO (KONEX)	Operation of Pandora.TV, one of the largest video sharing websites in Korea	Korea
	September 2014	GCS HOLDINGS, INC.	IPO (TPEX, former GTSM)	A long-distance, high-speed communications semiconductor foundry	U.S.
	September 2014	RIBOMIC Inc.	IPO (TSE Mothers)	Research and development of molecular targeted pharmaceutical drugs using RNA aptamers by means of the RiboART System drug discovery platform	Japan
	October 2014	YAPPA Corporation	M&A	Development of graphics technology, development and sale of e-books	Japan
	October 2014	Kakao Corp	M&A	Provision of a mobile messenger platform (KakaoTalk)	Korea
	October 2014	CERES INC.	IPO (TSE Mothers)	Design and operation of smartphone media etc.	Japan
	December 2014	TOKYO BOARD INDUSTRIES CO., LTD.	IPO (TSE 2nd Section)	Manufacture and sale of particle board	Japan
	December 2014	Yest Co., Ltd.	IPO (KONEX)	Manufacture of semiconductor manufacturing machines	Korea
	January 2015	UPHills, Inc.	M&A	Support for shops listed on the "Kamimado," beauty and hair salon reservation site, and sale of advertising space	Japan
	March 2015	Mobile Factory, Inc.	IPO (TSE Mothers)	Social app and mobile content businesses	Japan



With Business Revitalization Completed, Moving Forward to a New Rapid Growth Phase Toward an Early IPO

Hideo Nakamura

SBI Savings Bank
Representative Director,
President & CEO



Positive Income Results Based on KGAAP, with Business Revitalization Completed

SBI Savings Bank, which became a consolidated subsidiary in March 2013, provides savings bank services in South Korea primarily to individual customers, self-employed individuals, and small and medium-sized enterprises. In October 2014, SBI Savings Bank merged with three of its affiliate companies to become the largest savings bank in South Korea.

The South Korean government's efforts to revitalize real estate trading have been successful, and housing prices continue to recover rapidly. SBI Savings Bank responded to this buoyant trend in the real estate market by resolutely working to recover non-performing project finance and consumer loan assets. The amount recovered exceeded the book value of the assets, with the result that the bank's financial results for FY2014 showed substantial growth based on IFRSs, with operating revenue recorded at 13.7% higher year-on-year at ¥41.6 billion, while profit before income tax expense increased by a factor of approximately 4.2 times to ¥16.7 billion.

Even on a KGAAP basis, of which performances were affected by the write-off of non-performing loans dating from before its acquisition as a consolidated subsidiary, SBI Savings Bank achieved positive quarterly income results in the third quarter of the year ending June 2015 (January–March 2015), following the previous quarter which was also positive, and it achieved profitability for the nine month period for the corresponding fiscal year (July 2014–March 2015). These results indicate that the bank has completed its revitalization process, and has emerged as South Korea's number one savings bank in both name and reality.

Major Improvement in Financial Soundness

SBI Savings Bank has dramatically improved the soundness of its assets, as its capital adequacy ratio as of March 31, 2015 was 11.3% (based on KGAAP).

The bank's performing loans have been increasing since 2014, and its delinquency ratio as of March 31, 2015 was 26.8%, a reduction of 19.9 percentage points compared with March 31, 2014.

Strategies for Further Growth

Having completed its corporate revitalization, SBI Savings Bank is preparing for an early IPO by taking active steps to expand its business activities, including further reinforcement of its corporate investment and loan business, and loan services for individual customers, while also continuing to dispose of non-performing loans. The Bank is also steadily diversifying its product offering, as it became the first bank in South Korea to offer housing collateralized loans via the Internet, as well as offering auto loans to its customers. Furthermore, by capturing future moves toward deregulation, SBI Savings Bank is actively promoting to launch an online banking business.



Filming a TV commercial with new employees (Myeongdong Branch)

9 Month Ended March 31, 2015 Results (based on KGAAP)

(Billions of KRW)

	1Q* (July–Sept. 2014)	2Q* (Oct.–Dec. 2014)	3Q (Jan.–Mar. 2015)	9 Months (July 2014–Mar. 2015)
Operating Revenue	111.3	110.0	116.1	337.5
Operating Income	(16.1)	14.5	24.0	22.4
Profit before income tax expense	(19.9)	10.1	27.4	17.6

* Results for the four-month period from July to October are the sum of the pre-merger non-consolidated results of the former SBI 1 Savings Bank and three affiliated banks, which is adjusted by eliminating the equity method profit/loss among the banks. In the results announced separately from SBI Savings Bank, the above mentioned results for the four-month period from July to October are the non-consolidated results of the former SBI 1 Savings Bank.